

REPORT TO THE CITY COUNCIL BY THE CITY INTERNAL AUDITOR

SPECIAL REPORT OF THE CITY'S CAR ALLOWANCE PROGRAM AND VEHICLE TAKE-HOME POLICY

SPECIAL REPORT (SR)600008-15

November 21, 2008



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Councilman Joe Shyne
Chairman, Shreveport City Council

Dear Councilman Shyne:

Subject: SR 600008–15 — Special Report of the City's Car Allowance Program and
Take-Home Vehicle Policy

Attached please find the report mentioned above. Management comments are included in the report.

Sincerely,

Leanis L. Graham, CPA, CIA
City Internal Auditor

EXECUTIVE SUMMARY
SPECIAL REPORT OF THE CITY'S CAR ALLOWANCE PROGRAM AND
TAKE-HOME VEHICLE POLICY
SPECIAL REPORT (SR) 600008-15

The purpose of the executive summary is to convey in capsule form the significant issues of this special report. The executive summary is a vehicle for reviewing the report and should only be used in conjunction with the entire report.

INTRODUCTION

The Internal Audit Office was requested to investigate the City's car allowance program. In addition, we also evaluated the City's take-home vehicle policy.

RECOMMENDATION/EVALUATION RISK CRITERIA

The chart below summarizes the recommendations outlined in the report and our evaluation of risk for the recommendations. We evaluated the importance of each audit recommendation by assigning each a level of risk. The risk levels, as defined in the chart below, were determined based on the possible results for the entity if the recommendation is not implemented. This report contains three findings with eight recommendations addressing actions necessary to remedy the observed deficient conditions.

| <i>Risk Levels</i> | <i>Recommendations</i> |
|--|---|
| High Risk Possibility of fraud, waste, and abuse of City assets; Interrupted and/or disrupted operations; Entity's mission not being met; Adverse publicity. | <ul style="list-style-type: none">▪ No city-wide policy on car allowance. (Finding 1)▪ Reimbursements for those receiving car allowances. (Finding 2)▪ No accurate inventory on take-home vehicles. (Finding 3) |
| Medium Risk Possibility of continuing, significant operating inefficiencies and high-level non-compliance issues. | None |
| Low Risk Possibility of continuing operating inefficiencies and some low-level non-compliance issues. | None |

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FINDINGS

Risk Factor

| | | |
|--|------------|---|
| 1. No City-Wide Policy on Car Allowances..... | High..... | 4 |
| 2. Reimbursements for Out of Town Travel by Those Receiving Car Allowances..... | High..... | 5 |
| 3. City Take-Home Vehicle Inventory vs. IRS Vehicle Inventory..... | High | 6 |

SPECIAL REPORT OF THE CITY'S CAR ALLOWANCE PROGRAM AND TAKE-HOME VEHICLE POLICY SPECIAL REPORT (SR) 600008-15

OBJECTIVES

We have completed a special report on the City's car allowance and take-home vehicle policy.

SCOPE AND METHODOLOGY

Our special report was performed in accordance with generally accepted governmental auditing standards as defined in Section A.40 of the Internal Audit Office Operating Instructions Manual. The scope of the study of internal control was limited to the general controls surrounding our objectives.

Audit procedures applied included, but were not necessarily limited to, the following:

- Observing operations and ongoing activities.
- Reviewing applicable records and documents.
- Interviewing appropriate personnel and management.

BACKGROUND

For the City, the tradition of giving car allowances predates the current form of government (City Charter 1978). The concept of car allowances is only included in budget documents. In fact, the first "official" mention of car allowances was made in a legal opinion (Legal Opinion Number 78-2 dated December 4, 1978, entitled "Car Allowance.") This legal opinion primarily validated the continued practice of giving car allowances to certain city officials. Additionally, **41** employees currently receive car allowances with an annual total of **\$140,400**.

CONCLUSIONS/FINDINGS/RECOMMENDATIONS

The Internal Audit Office expresses appreciation to the employees of the Finance, Payroll, and Accounting Sections for their cooperation and assistance provided during our review.

Based on our review, we believe management could enhance the control environment by:

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- Developing policies and procedures to address car allowances and include policies to address reimbursements for employees that receive car allowances and travel out of town.
- Ending car allowances and completing mileage reimbursements in accordance with Administrative Procedure 1-1 entitled "Travel Reimbursements".
- Ensuring adequate accounting for take-home vehicles.

1. No City-Wide Policy on Car Allowances

Criteria: Documented policies and procedures can improve operations of an organization by providing standards for uniformity in practices, establishing clear lines of responsibility, enhancing accountability, and lessening the threat to continuity posed by employee turnover.

Condition: The City had no documented policies and procedures to address any aspect of car allowances. The practice of giving car allowances is initiated in the budgeting process and lacks any kind of requirements or constraints on the amount and eligibility for receiving them. Based upon our interviews with several employees, car allowances are used as a salary supplement.

Effect:

- Lack of a basis or criteria for granting car allowances.
- Operations may not be in accordance with missions, goals, and objectives.

Cause: Management had not realized that car allowances had not been addressed by formal policies and procedures.

Recommendation:

We recommend that management:

1. Consider developing and implementing a policy and related procedures to address car allowances; or
2. Consider ending car allowances and do mileage reimbursements in accordance with Administrative Procedure 1-1 entitled "Travel Reimbursements."
3. Consider not including the car allowance allotment in the affected employee's base salary (if the car allowance is discontinued).

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Management Plan of Action:

CAO: We do not agree that “car allowances are unearned perks that are used as a salary supplement.” Car allowances were instituted almost thirty years ago, as an alternative to providing City-furnished vehicles to certain City employees. The rationale was that the City might well spend \$20-30,000 over the life of a vehicle (at that time, increased today) to purchase and maintain a City vehicle to be used by that employee. The alternatives were to provide a car allowance or to pay in-town mileage for business travel. The former alternative was chosen.

It is true that car allowances are included in an employee’s salary for Federal tax purposes, because they are income to the recipient. We cannot fail to report the car allowances in an employee’s income.

The Administration feels that both car allowances and in-town mileage reimbursements are appropriate means of addressing the same issue, but does not feel that abolishing vehicle allowances altogether is necessary.

To the extent that there is a policy on vehicle allowances, it is simply this: Either the Mayor, CAO, or Council Chair may determine that an employee under their supervision should receive a car allowance. Their approval is all that is necessary, provided that funds are available in their respective budgets to fund the allowances.

2. Mileage Reimbursements for Out-of-town Travel by Those Receiving Car Allowances

Criteria: Administrative Procedure 1-1, Section IV (6) entitled “Travel Reimbursement,” addresses how mileage reimbursement should be handled.

Condition: We noted that the referenced administrative procedure did not contain provisions nor did it address mileage reimbursement for out-of-town travel by those receiving car allowances.

Effect: Legitimate expenses incurred on behalf of the City not being reimbursed.

Cause: Management had not recognized that a policy had not been developed to address mileage reimbursement for out-of-town travel by those receiving car allowances.

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Recommendation:

We recommend that management:

1. Obtain a legal opinion on the legality of reimbursing those employees receiving car allowances for out-of-town mileage expense.
2. Develop a policy to address this issue.

Management Plan of Action:

CAO: The City's policy for many years has been that employees who receive car allowances may not receive mileage reimbursements for in-town travel, but may be reimbursed for mileage driven for out-of-town travel which has been properly approved. We see no reason to ask for a legal opinion. If we feel that this needs to be formalized in the AP, we will do so.

3. City's Take-Home Vehicle Inventory vs. IRS Take-Home Inventory

Criteria: City Administrative Procedure 1-24 entitled "Take-Home Vehicle Policy," Section 5, requires the CAO to maintain an inventory list of take-home vehicles.

Condition: The City did not maintain a formal and reliable list of take-home vehicles. Our preliminary fieldwork revealed the City reported only **30** take-home vehicles and the IRS documented **272** (during a recent review), a difference of **242** vehicles. Also, it appears that the policy's criteria for assigning take-home vehicles was not being complied with.

Effect:

- No reliable record of take-home vehicles.
- High and unnecessary fuel costs.
- Excessive number of employees being assigned take-home vehicles.

Cause: The CAO had not complied with the aforementioned procedure. Also, the criteria for take-home vehicles was not being complied with.

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Recommendation:

The CAO should:

1. Complete an inventory of take-home vehicles.
2. Investigate the difference between the City's reported take-home vehicles and the IRS documented count.
3. Re-evaluate for necessity the assignment of take-home vehicles for all affected employees.

Management Plan of Action:

CAO: If your preliminary fieldwork only revealed 30 take home vehicles, you have obviously omitted Police vehicles. Under the Hightower administration, the Police officer take-home program was instituted. It was expanded under this Administration and has received wide support. What the audit calls "high and unnecessary fuel costs" are the reasonable price of allowing officers who live within the City limits to take home their vehicles. This program has boosted the perception of Police presence in our neighborhoods and greatly extended the useful life of our patrol vehicles.

The City actually has very few take-home vehicles, outside of those used by first responders and other on-call personnel.

Director of Finance: There was not a difference of 242 take-home vehicles between what the City was reporting and what the IRS documented. The source of the original information obtained by the IRS was not correct. Subsequently, correct information was provided to the IRS and the result was eleven (11) vehicles were not documented in the payroll system. Eleven were determined to not meet all of the IRS guidelines for exemption in that the employees, if they desired, could use the vehicles as a regular vehicle even though they were work vehicles with tool boxes, etc. The final list of take-home vehicles given to the auditor on 4/28/08 clearly showed there were not 242 reconciling items.

Prepared by:

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Supervising Senior Auditor

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May 9, 2008

Approved by:

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City Internal Auditor

ds:lp

c: Mayor
CAO
City Attorney
Clerk of Council
City Council
External Auditor
Director of Finance